



State of California

CALIFORNIA EMPLOYER

Fourth Quarter 2001

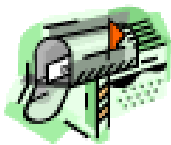
Watch for your 2002 tax rate information

You will receive your *Notice of Contribution Rates and Statement of Unemployment Insurance (UI) Reserve Account* (DE 2088) by December 31, 2001.

The DE 2088 notice will include your 2002 Unemployment Insurance (UI), Employment Training Tax (ETT), and State Disability Insurance (SDI) rates and taxable wage limits.

Any item on the DE 2088 may be protested except SDI and ETT, which are specifically set by law. The protest must be filed in writing within 60 days of the mail date shown on the notice. When filing a protest, include your Employment Development Department (EDD) employer account number, the specific item

protested, and why you are protesting. Mail your protest to: EDD; Contribution Rate Group, MIC 4; P.O. Box 826880; Sacramento, CA 94280.



If you do not receive your DE 2088 rate notice by the end of December, or if you need more information on your 2002 rates, call our Contribution Rate Group at (916) 653-7795. Our automated phone system is available 24 hours a day, 7 days a week. To expedite your call, please have your DE 2088 or EDD employer account number available.

You can also access our Internet site at www.edd.ca.gov for more tax rate information.

Employers share tips on flexing their power

California's energy challenge continues to affect the way we all use electricity.

In conjunction with utility companies, generators, and consumer groups, the Governor and leaders of the California Legislature continue working to fashion long-term solutions for the state's power needs.



The State of California is currently following its plan to reduce consumption by a minimum of 10 percent across the board.

Many California employers have found that even small steps add up to big savings on their energy bills.

No matter what your business, you can also flex your power and improve your bottom line by taking similar small steps, such as:

- Set thermostats at 68 degrees or lower if heating, 78 degrees or higher if cooling.
- Install programmable thermostats to automatically maintain optimum temperatures for workspaces and the times they are in use.
- Install occupancy sensors to automatically control lights in nonessential areas.
- Reduce general overhead lighting and use task lighting as needed.
- Have regular maintenance performed on your heating and air conditioning systems to ensure efficient operation.

Annual interest rate will be 7 percent



For the period January 1 through June 30, 2002, the annual interest will be 7 percent (.07), compounded daily.

The daily interest factor will be .000192. If you have any questions about the annual interest rate, please call us at 1-888-745-3886.

Options for reducing your 2002 UI tax rate

The voluntary Unemployment Insurance (UI) program, which may be in effect for 2002, allows eligible employers to make an additional UI tax payment to obtain a lower UI tax rate.

A voluntary UI payment is not a prepayment against future UI taxes, and cannot be deducted on a future tax return. If voluntary UI is in effect in 2002, the deadline to submit a voluntary UI payment for 2002 is March 29, 2002.



You may be eligible to participate if you are:

- A positive UI reserve account balance employer;
- An experience-rated employer (not paying at the 3.4 percent new employer tax rate);
- Not already on the lowest UI rate; and
- Current in paying taxes (no unpetitioned outstanding liability as of September 30, 2001).

Eligible employers receive a *Voluntary UI Contribution Notice* (DE 2088A) and an *Explanation Sheet and Worksheet for the Voluntary UI Contributions Notice* (DE 2808VU). The notice shows up to three different amounts you may pay to lower your 2002 UI tax rate.

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Taxable value of meals and lodging for 2002

Meals and/or lodging that you provide to your employees should be treated as wages for Unemployment Insurance,



Employment Training Tax, and State Disability Insurance.

Meals are subject to California Personal Income Tax (PIT) withholding unless you furnish the meals to your employees for your convenience on your business premises.

Lodging is subject to PIT withholding unless it is furnished for your convenience and the employee is required to accept lodging on your business premises as a condition of employment.

Each year, these values are adjusted based on the cost-of-living indexes.

EMPLOYEES*		MARITIME EMPLOYEES	
Meals	Value	Licensed Personnel	Value
- Breakfast.....	\$ 1.80	- Meals.....	\$ 8.20
- Lunch.....	2.50	- Quarters.....	5.60
- Dinner.....	3.90	- Total per day.....	\$ 13.80
- 3 meals per day.....	\$ 8.20	Unlicensed Personnel	Value
- A meal not identified as either breakfast, lunch, or dinner.....	\$ 2.85	- Meals.....	\$ 8.20
		- Quarters.....	3.80
		- Total per day.....	\$ 12.00
Lodging Value		Fishermen	
- Value is set at 66-2/3 percent of the ordinary rental value to the public, but not in excess of \$826.00 per month or less than \$26.80 per week.		- Lodging value is \$26.80 per week and \$3.80 per day for periods of less than a week.	
* Maritime employees' values of meals and lodging are different than all other employees and are shown in the above table on the right. Lodging values for maritime employees apply only when the facilities meet specific minimum standards.			

Please use the values shown above for 2002. These values do not apply where higher values of meals and lodging are stipulated in a union agreement or

contract of hire, or are required for compliance with minimum wage laws. If you have any questions, please call us at 1-888-745-3886.

Get valuable information at an upcoming Small Business Fair

Business owners and potential business owners are invited to attend an upcoming Small Business Fair, which offer workshops on federal, state, and local tax and business requirements. See the State Board of Equalization Web site at www.boe.ca.gov/tpsched.htm for details. These events are free, but reservations are recommended for the workshops.

- **Los Angeles/Culver City Small Bus. Day**
West Los Angeles College
February 22, 8:30 a.m. – 3 p.m.
Call: (310) 342-1080
E-mail: lataxday@boe.ca.gov
- **Long Beach/So. Bay Small Bus. Tax Day**
Long Beach Convention Center
March 8, 9 a.m. – 4 p.m.
Call: (310) 516-4330
E-mail: lbtaxday@boe.ca.gov

- **Riverside Small Business Tax Day**
Riverside Convention Center
April 11, 8:30 a.m. – 4 p.m.
Call: (909) 680-6705
E-mail: rivtxday@boe.ca.gov
- **Bay Area Small Business Fair**
Hiram Johnson State Building
May 17, 8:30 a.m. – 1:30 p.m.
Call: (415) 703-5432
E-mail: basmbus@boe.ca.gov

Follow these tips for trouble-free annual reconciliation

Here are some tips to help you avoid costly and time-consuming mistakes:

- Double check the amounts reported before submitting your fourth quarter *Quarterly Wage and Withholding Report*

(DE 6), *Annual Reconciliation Statement* (DE 7), *IRS Employer's Annual Federal Unemployment (FUTA) Tax Return* (Form 940/940EZ), and providing *Wage and Tax Statements* (Forms W-2) to your employees.

ANNUAL RECONCILIATION	All Items Within Each Box Below Should Agree*
■ Total Subject Wages	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6s (Item M) – all 4 quarters ■ DE 7 (Item C)
■ UI Taxable Wages <i>Note: DE 7 "UI Subject Wages" may be different than Form 940/940EZ "Total Taxable Wages" if you have exempt employees.</i>	<ul style="list-style-type: none"> ■ DE 7 (Item D2) ■ IRS Form 940/940EZ (Line 5)
■ PIT Wages	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6 (Item N) – all 4 quarters ■ Forms W-2 (Box 16)
■ PIT Withheld	<ul style="list-style-type: none"> ■ Earnings/payroll records ■ DE 6 (Item O) – all 4 quarters ■ DE 7 (Item G) ■ Forms W-2 (Box 17) plus Forms 1099R (Box 10)
* If amounts do not agree, find the error and correct all forms with incorrect amounts. If an error was made on a previously filed DE 6, complete a Tax and Wage Adjustments Form (DE 678) to correct the quarter with the error.	

- Use the information in the table at left to reconcile your annual "Total Subject Wages," "UI Taxable Wages," "PIT Wages," and "PIT Withheld."

■ If after completing your DE 7, you realize you have underpaid your taxes, complete a DE 88 coupon for the amount of the underpayment. It is *very important* that you complete the payroll date, payment type, and payment quarter. Failure to complete these items may result in your payment being posted to the wrong quarter and/or year, and interest and penalty may be assessed.

For information on annual reconciliation, underpayments, or to request a DE 678 form, call 1-888-745-3886. For information on "Total Subject Wages" and "PIT Wages," request the *Information Sheet: PIT Wages Reported on the Quarterly Wage and Withholding Report* (DE 231PIT) by calling 1-888-745-3886 or visiting our Web site at www.edd.ca.gov/taxform.htm.

Changes in federal law affect California's payroll tax requirements

The Internal Revenue Code (IRC) was amended¹ for certain types of payments to employees.

The table below includes a summary of the federal law changes and what they mean to you for California payroll tax purposes.

For federal tax treatment information, please call the Internal Revenue Service at 1-800-424-1040.

For California tax treatment information, refer to the "Types of Payments" table in the *California Payroll Tax Guide* (DE 44P) or

California Employer's Guide (DE 44), or call our Audit Section at (916) 464-2500.



The DE 44 can also be downloaded at www.edd.ca.gov/taxform.htm, or request a copy by calling 1-888-745-3886.

CHANGES IN FEDERAL LAW			CALIFORNIA TREATMENT		
Type of Payment	Federal Treatment	Effective	UI, ETT, & SDI	PIT Withholding	PIT Wages
Adoption Assistance: Payments under IRC Section 137.	Gross income exclusion increases to \$10,000.	1/1/02	Subject	Subject ²	Reportable ²
	Gross income exclusion of \$10,000 for a child with special needs <i>regardless</i> of qualified adoption expenses.	1/1/03	Subject	Subject ²	Reportable ²
Educational Assistance: Payment under IRC Section 127 excluded from gross income up to \$5,250 per calendar year. Graduate- and undergraduate-level courses.	Gross income exclusion includes graduate-level courses taken by an individual leading to a law, business, medical, or other advanced degree. Removed IRC Section 127 termination date.	1/1/02	Exempt if at the time paid or furnished it is reasonable to believe the amounts are excludable from income under IRC Section 127.	Not subject up to \$5,250 per calendar year.	Not reportable up to \$5,250 per calendar year.
Retirement and Pension Plans: ■ Contributions to qualified pension, annuity, and deferred compensation plans such as 401(k), 403(b), and salary reduction simplified employee pension (SEP). ■ Contributions to 457 plans. ■ Contributions to Savings Incentive Match Plans for Employees (SIMPLE) plans.	Annual elective deferral increases to \$11,000. Allows for catch-up contributions of \$1,000 for individuals at age 50 or over.	For calendar year 2002	Exempt unless the contributions result from a salary reduction agreement.	Subject ²	Reportable ²
	Annual elective deferral increases to \$11,000. Allows for catch-up contributions of \$1,000 for individuals at age 50 or over.	For calendar year 2002	Subject at time services are performed or when there is no substantial risk of forfeiture of the right to the amount, whichever is later.	Subject ²	Reportable ²
	Annual elective deferral contribution increases to \$7,000. Allows for catch-up contributions of \$500 for individuals at age 50 or over.	For calendar year 2002	Exempt unless the contributions result from a salary reduction agreement.	Subject ²	Reportable ²
Retirement Planning Services: IRC Section 132 (Employer-provided fringe benefit for qualified retirement planning services to an employee and his/her spouse.)	Excluded from gross income.	1/1/02	Exempt	Subject ²	Reportable ²

¹ House of Representatives 1836, "The Economic Growth and Tax Relief Reconciliation Act of 2001" (Public Law 107-16).

² California treatment for PIT Withholding and PIT Wages could change if California legislation is passed to conform to federal treatment.

Do your employees claim exempt status?

The information your employees provide on their federal *Employee's Withholding Allowance Certificate* (IRS Form W-4) is



also used to calculate those employees' California Personal Income Tax (PIT) withholding. If your employees wish to specify different withholding for

State purposes, an *Employee Withholding Allowance Certificate* (DE 4) must be filed.

Employees complete the DE 4 to claim a different marital status or number of allowances than they claimed on their IRS Form W-4. In addition, if your employee wants to claim exempt from federal and California PIT withholding,

they should claim the exemption on Form W-4. Since the exempt status expires on February 15 each year, the employee must complete a new Form W-4 by February 15 to remain exempt. If the employee does not sign a new Form W-4, you are required to change the employee's California withholding status to "single" with zero (0) withholding allowances and begin withholding California PIT.

For more information or to request an *Employer's Obligations for Form W-4 or DE 4* (DE 71), call 1-888-745-3886; access our Fax-on-Demand system at 1-877-547-4503; or visit our Internet site at www.edd.ca.gov/taxform.htm.

Options for reducing your UI tax rate

(continued from page 1)

Please use the worksheet to calculate projected savings to determine whether it is beneficial for you to make a voluntary UI payment. When making your decision, you should consider the following:

- The cost of reducing your UI rate may be greater than the savings you realize from the lower rate.
- Once you make a voluntary UI payment, the reduced rate is in effect for all of 2002 and it cannot be refunded.

- If you make a voluntary UI payment and you are not eligible for the program, or if the payment is insufficient to reduce your UI tax rate to the next lowest rate, the payment may be applied to an existing liability with EDD, State Board of Equalization, or Franchise Tax Board.

Please call our Contribution Rate Group at (916) 653-7795 if you have questions about your UI tax rate.

Make note of these legal holidays for 2002

To ensure the timeliness of your 2002 tax payments and returns, please refer to the chart below for the date each legal holiday will be observed in the new year. For specific payroll tax deposit requirements, refer to the *California Payroll Tax Guide* (DE 44P) or the *California Employer's Tax Guide* (DE 44).

If a payment or return due date falls on a Saturday, Sunday, or legal holiday, the due date is extended to the next business day. For more information or to request a *California Employer's Tax Guide* (DE 44), call us at 1-888-745-3886 or access our Web site at www.edd.ca.gov/taxform.htm.

HOLIDAYS OBSERVED	DATE in 2002	NEXT BUSINESS DAY
New Year's Day	January 1	January 2 (Wednesday)
Martin Luther King Jr. Day	January 21	January 22 (Tuesday)
Lincoln's Birthday	February 12	February 13 (Wednesday)
Presidents' Day	February 18	February 19 (Tuesday)
Good Friday	March 29	April 2 (Tuesday)
Cesar Chavez Day	April 1	April 2 (Tuesday)
Memorial Day	May 27	May 28 (Tuesday)
Independence Day	July 4	July 5 (Friday)
Labor Day	September 2	September 3 (Tuesday)
Calif. Admission Day	September 9	September 10 (Tuesday)
Columbus Day	October 14	October 15 (Tuesday)
Veterans Day	November 11	November 12 (Tuesday)
Thanksgiving Day & day after	November 28 & 29	December 2 (Monday)
Christmas Day	December 25	December 26 (Thursday)

PAYROLL TAX INFORMATION

- General Tax Information, 1-888-745-3886
Address Changes, or
Payroll Tax Forms
- Forms Requests (916) 322-2835
(25+ copies) Fax: (916) 928-5910
- Employer Account # (916) 654-7041
Registration Info. Fax: (916) 654-9211
- Electronic Funds Transfer (916) 654-9130
Fax: (916) 654-7441
- Magnetic Media Reporting:
- Quarterly Reports (916) 654-6845
- New Employee Registry/
Indep. Contractor (916) 651-6945
- Alternate Forms (916) 255-0649
Coordinator Fax: (916) 255-1578
- Telefile 1-800-796-3524
- Electronic Data Interchange (916) 255-1649
- Tax Rates & Benefit Charge Information (916) 653-7795
- New Employee Registry (916) 657-0529
Fax: (916) 255-0951
- Independent Contractor Reporting (916) 657-0529
Fax: (916) 255-3211
- Offers in Compromise (916) 464-2726
Fax: (916) 464-2077
- Underground Economy Operations (916) 464-1075
Fax: (916) 464-1020
- Taxpayer Rights Advocate (916) 654-8957
Fax: (916) 654-6969
- EDD's Web site: www.edd.ca.gov

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